Something Different in the Air?

The Collapse of the Schwarzenegger Health Plan in California

Daniel J.B. Mitchell
Ho-su Wu Professor
UCLA Anderson Grad School of Management
And
UCLA School of Public Affairs

Rand: April 25, 2008 – UCLA-SPA: April 30, 2008

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Themes:

Leadership

History

Budget

Themes:

Leadership
History
Budget

Henry VIII &
Ann Boleyn

Themes:

Leadership

Themes:

Leadership

History

Budget

“If it were easy, California would have gotten universal coverage 60 years ago – that’s when Earl Warren’s reform plan fell short by a single vote.”

Arnold Schwarzenegger

History

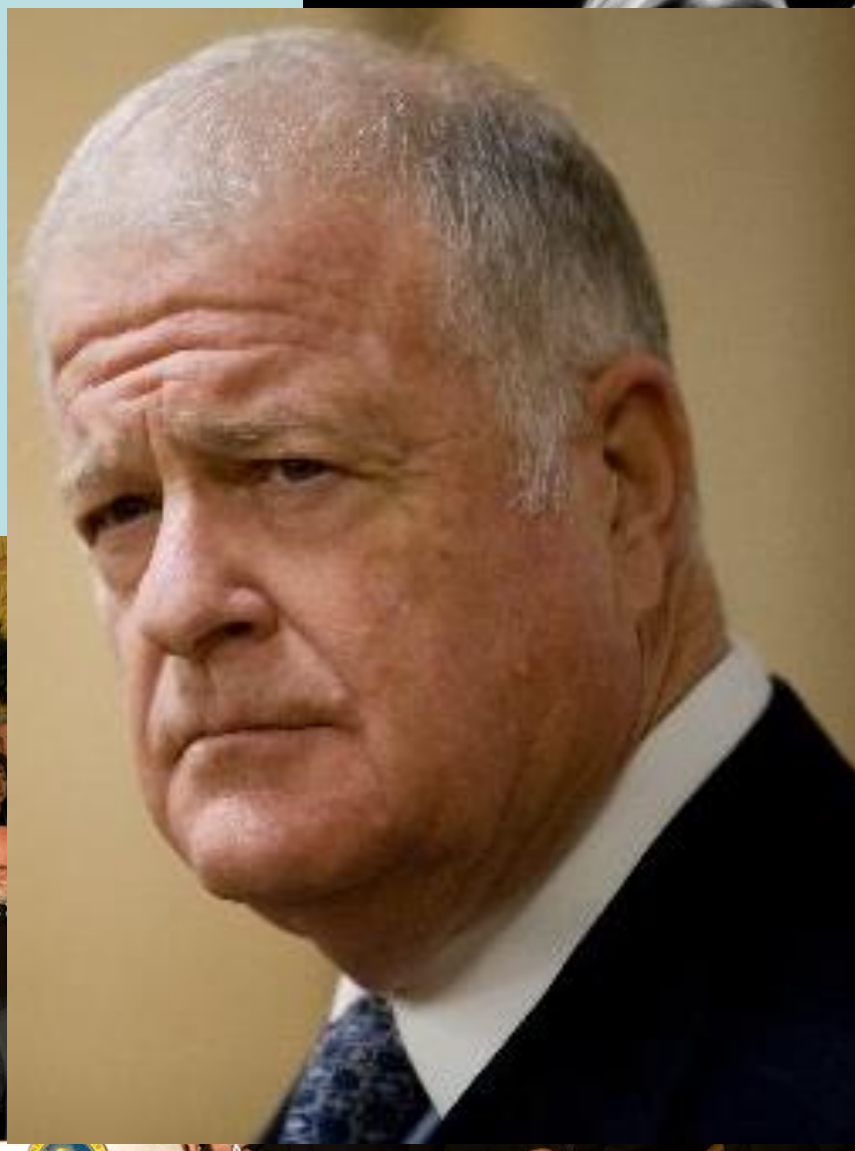
Themes:

Leadership

History

Budget

Themes:



Budget

"Our motivation was the budget, and it was no more complicated than that."

Don Perata

The Plan

State of the State Address

January 2007

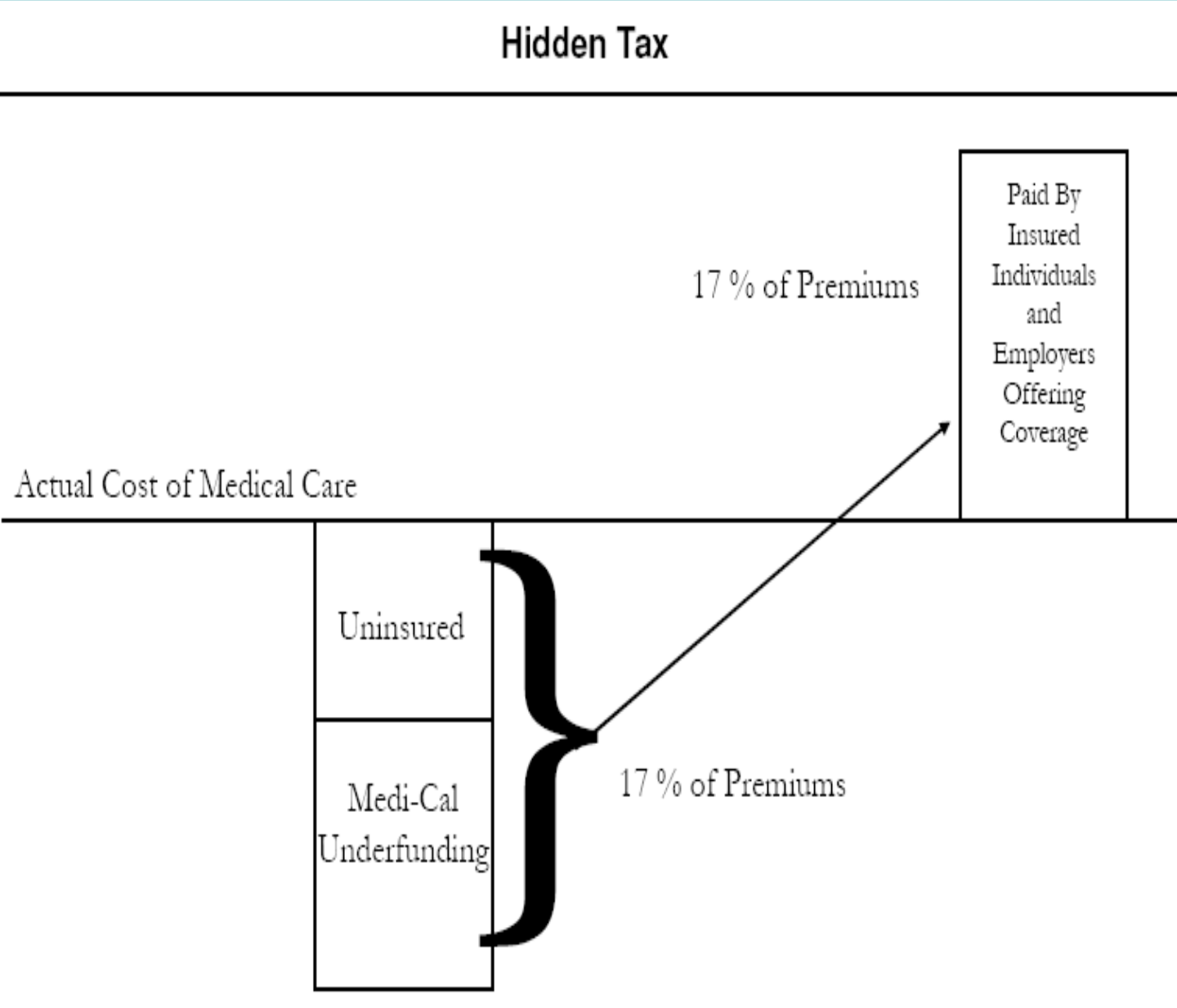
Governor's Proposal

- **Note: Proposed but not as a bill**

  - **Health insurance required for everyone**
  - **State-subsidized insurance for those with low incomes**
  - **Companies with 10 or more workers provide insurance or pay into a state fund**
  - **Incentives for healthy behavior and prevention**
  - **Insurers could not refuse to sell policies to anyone or charge unhealthy people more**
  - **Insurers spend at least 85% of premiums on healthcare**
  - **Increased state payments to doctors and hospitals that treat the poor**
  - **<u>Fees</u> assessed on earnings of hospitals and doctors**
  - **State-subsidized insurance for all children from low- and moderate-income families**
  - **Tax-free savings accounts allowed for the purchase of high-deductible insurance**

From official proposal:

http://www.stayhealthycalifornia.com/



CLASSIFIED
How To Get Free Money From The U.S. Government!

"Fees" (taxes?) on docs and hospitals

$12 billion from state, federal, employers, individuals

Population Movements

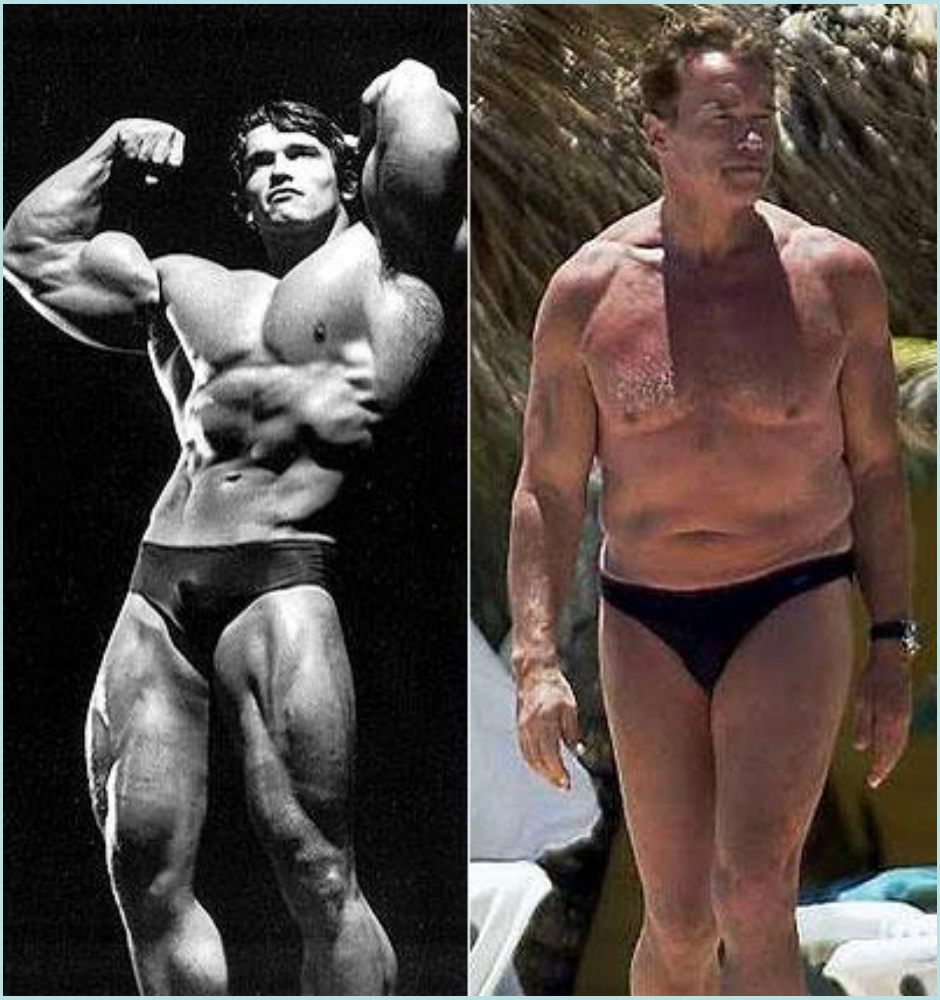
(in millions)

Table 3: Net Changes in Population for Entire Population (Under Age 65)			
Insurance Source	Before	After	Change
Public Insurance	6.6	8.1	1.5
Employer-Provided Insurance	18.8	18.8	0
Non-Group Insurance	2.1	2.7	0.7
New Pool for Low Income	0	1.9	1.9
Uninsured	4.9	0.8 *	-4.1
Total	32.4	32.4	0

Jonathan Gruber, MIT: 5/16/07

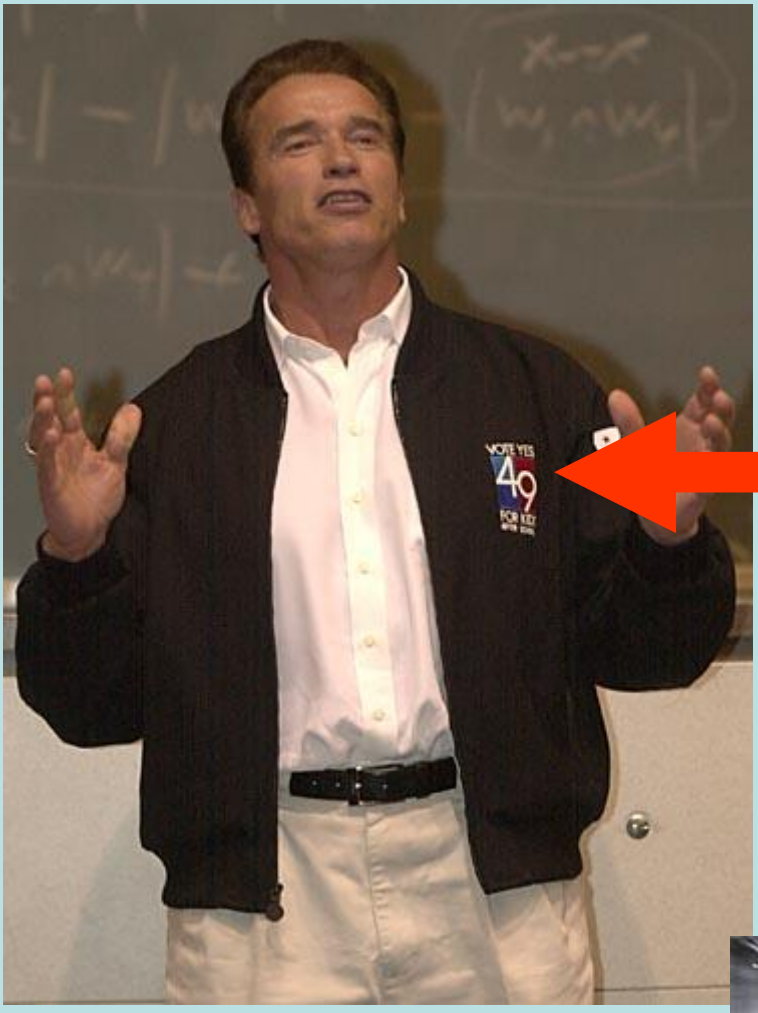
http://calhealthreform.org/images/gruberstudynunezperata051607.pdf

Universal health care in California?

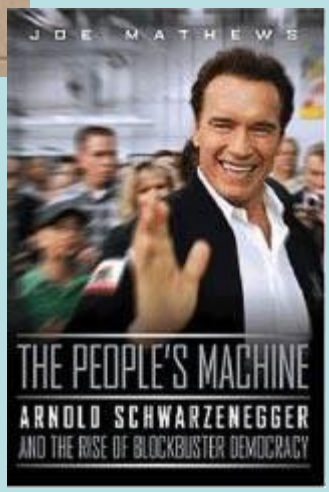


California has an aging population, although less so than the US as a whole.

Prop 49: 2002

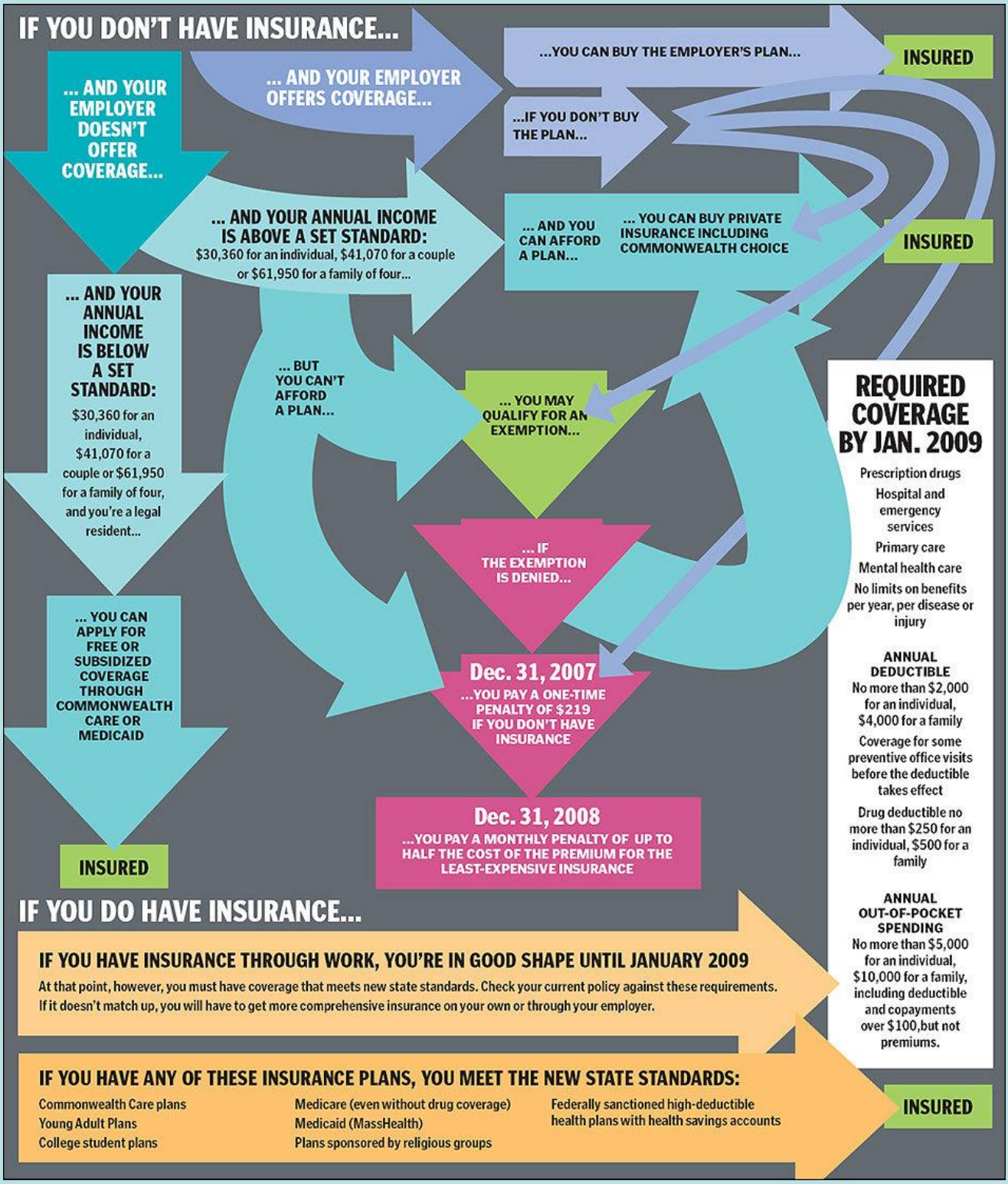


After-School Activities



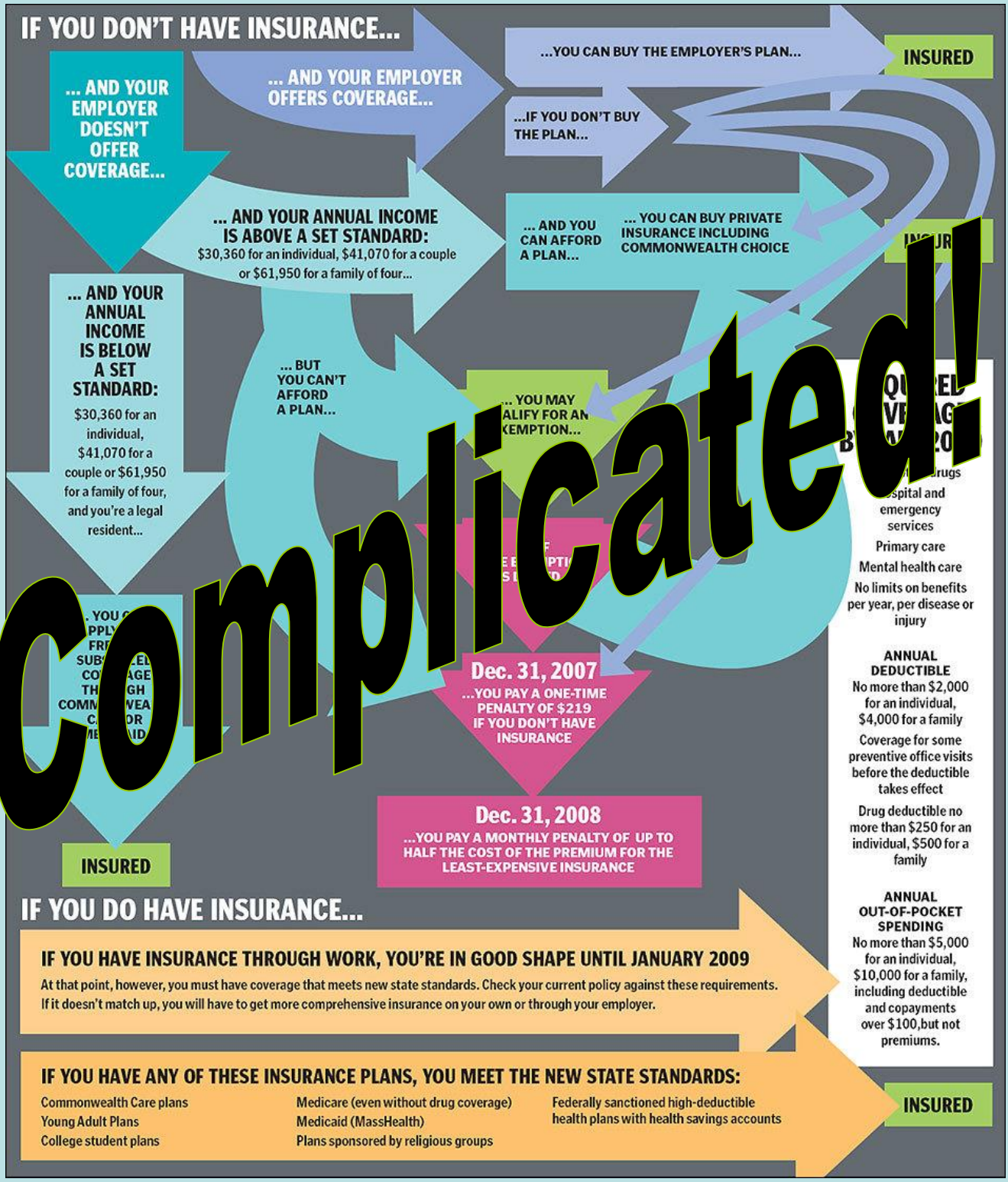
JUNE 25, 2007
The iPhone Effect: How Touch Screens Became the Future of Computing
Iraq: Hacker Insurgents and Remote-Control Mayhem
Funny Business: Why Comedies Are King This Summer
TIME
Michael Bloomberg
Arnold Schwarzenegger
Who Needs Washington?
How a billionaire mayor and a celebrity governor are showing what it takes to get things done
BY MICHAEL GRUNWALD
Also: Who Will Have the Courage To Be the President We Need?
BY JOE KLEIN
www.time.com

Massachusetts Plan


IF YOU DON'T HAVE INSURANCE...
... AND YOUR EMPLOYER DOESN'T OFFER COVERAGE...
... AND YOUR EMPLOYER OFFERS COVERAGE...
...YOU CAN BUY THE EMPLOYER'S PLAN...
INSURED
...IF YOU DON'T BUY THE PLAN...
... AND YOUR ANNUAL INCOME IS ABOVE A SET STANDARD:
$30,360 for an individual, $41,070 for a couple or $61,950 for a family of four...
... AND YOU CAN AFFORD A PLAN...
... YOU CAN BUY PRIVATE INSURANCE INCLUDING COMMONWEALTH CHOICE
INSURED
... AND YOUR ANNUAL INCOME IS BELOW A SET STANDARD:
$30,360 for an individual, $41,070 for a couple or $61,950 for a family of four, and you're a legal resident...
... BUT YOU CAN'T AFFORD A PLAN...
... YOU MAY QUALIFY FOR AN EXEMPTION...
... IF THE EXEMPTION IS DENIED...
... YOU CAN APPLY FOR FREE OR SUBSIDIZED COVERAGE THROUGH COMMONWEALTH CARE OR MEDICAID
Dec. 31, 2007
...YOU PAY A ONE-TIME PENALTY OF $219 IF YOU DON'T HAVE INSURANCE
Dec. 31, 2008
...YOU PAY A MONTHLY PENALTY OF UP TO HALF THE COST OF THE PREMIUM FOR THE LEAST-EXPENSIVE INSURANCE
INSURED
REQUIRED COVERAGE BY JAN. 2009
Prescription drugs
Hospital and emergency services
Primary care
Mental health care
No limits on benefits per year, per disease or injury
ANNUAL DEDUCTIBLE
No more than $2,000 for an individual, $4,000 for a family
Coverage for some preventive office visits before the deductible takes effect
Drug deductible no more than $250 for an individual, $500 for a family
ANNUAL OUT-OF-POCKET SPENDING
No more than $5,000 for an individual, $10,000 for a family, including deductible and copayments over $100, but not premiums.
IF YOU DO HAVE INSURANCE...
IF YOU HAVE INSURANCE THROUGH WORK, YOU'RE IN GOOD SHAPE UNTIL JANUARY 2009
At that point, however, you must have coverage that meets new state standards. Check your current policy against these requirements. If it doesn't match up, you will have to get more comprehensive insurance on your own or through your employer.
IF YOU HAVE ANY OF THESE INSURANCE PLANS, YOU MEET THE NEW STATE STANDARDS:
Commonwealth Care plans
Young Adult Plans
College student plans
Medicare (even without drug coverage)
Medicaid (MassHealth)
Plans sponsored by religious groups
Federally sanctioned high-deductible health plans with health savings accounts
INSURED

Source: www.bostonglobe.com

Massachusetts Plan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INSURED

Complicated!

Source: www.bostonglobe.com

Massachusetts Plan

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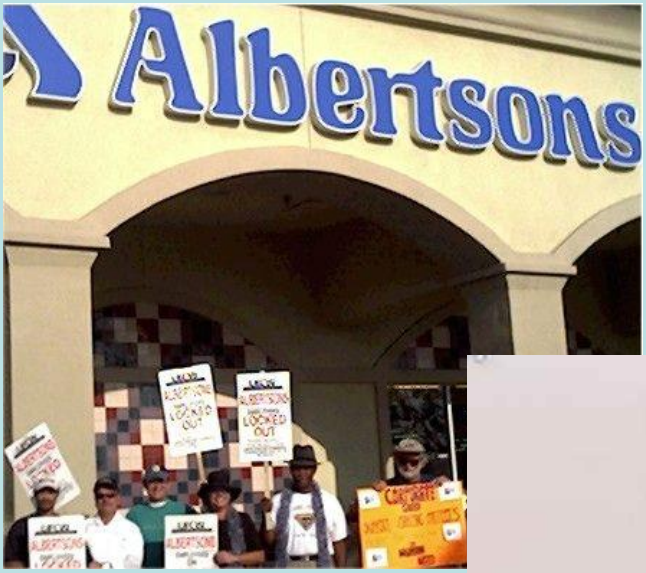
Assemblyman Keith Richman, MD

R-Northridge

Source: www.bostonglobe.com

2003-4 Southern California Supermarket Strike



Kroger

Safeway

2003-4 Southern California Supermarket Strike

Steven A. Burd
CEO Safeway

Burd et al Proposals

Coalition to Advance Healthcare Reform

- **Health insurance required for everyone (individual-based)**
- **Subsidized insurance for those with low incomes**
- **Preexisting conditions covered**
- **Incentives for healthy behavior and prevention**
- **Tax deductions for individuals who buy insurance**
- **Costs of care revealed to consumers**

LA Times 5/7/07

Burd et al Proposals

Coalition to Advance Healthcare Reform

- **Healt r everyor**
- **Subsi se with low inc**
- **Preex ed**
- **Incen or and prevent**
- **Tax d ls who buy ins**
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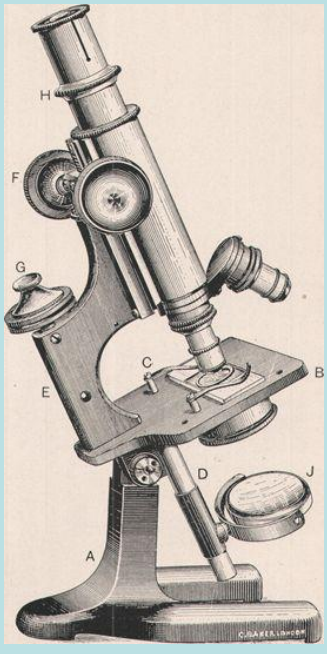
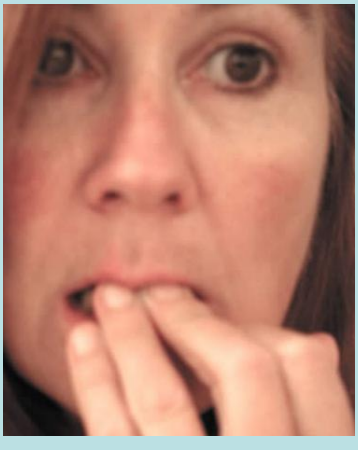
LA Times 5/7/07

History Lessons

- **Need to <u>focus</u> if a plan affecting many interest groups is to be sold**
- **<u>Fears</u> arise that the new plan could make things worse**





California Governor
Earl Warren

Act I: 1945

- Consulting the docs (a bit)
- Announcing the plan
- Doctor opposition

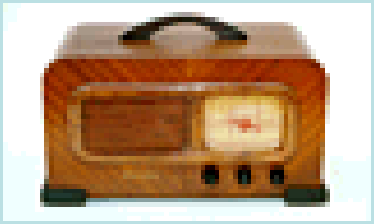
Whitaker and Baxter

Calif. Physicians Service

- Business opposition
- AFL vs. CIO

Fee for service vs. capitation

- Failure
- Hospitalization only plan
- Failure again



Act II: 1947

- **Background:**
  1946 Election
- **Expansion of job-based private plans esp. union**
- **Catastrophic Health Insurance Plan**
- **Employer pay or play**
- **Failure again**

Collier-Burns Act (1947)

- **Proposal: Put gas and other motor-vehicle related taxes into trust fund to avoid tax "diversion"**
- **Raise gas and related taxes to build freeways and other roads**

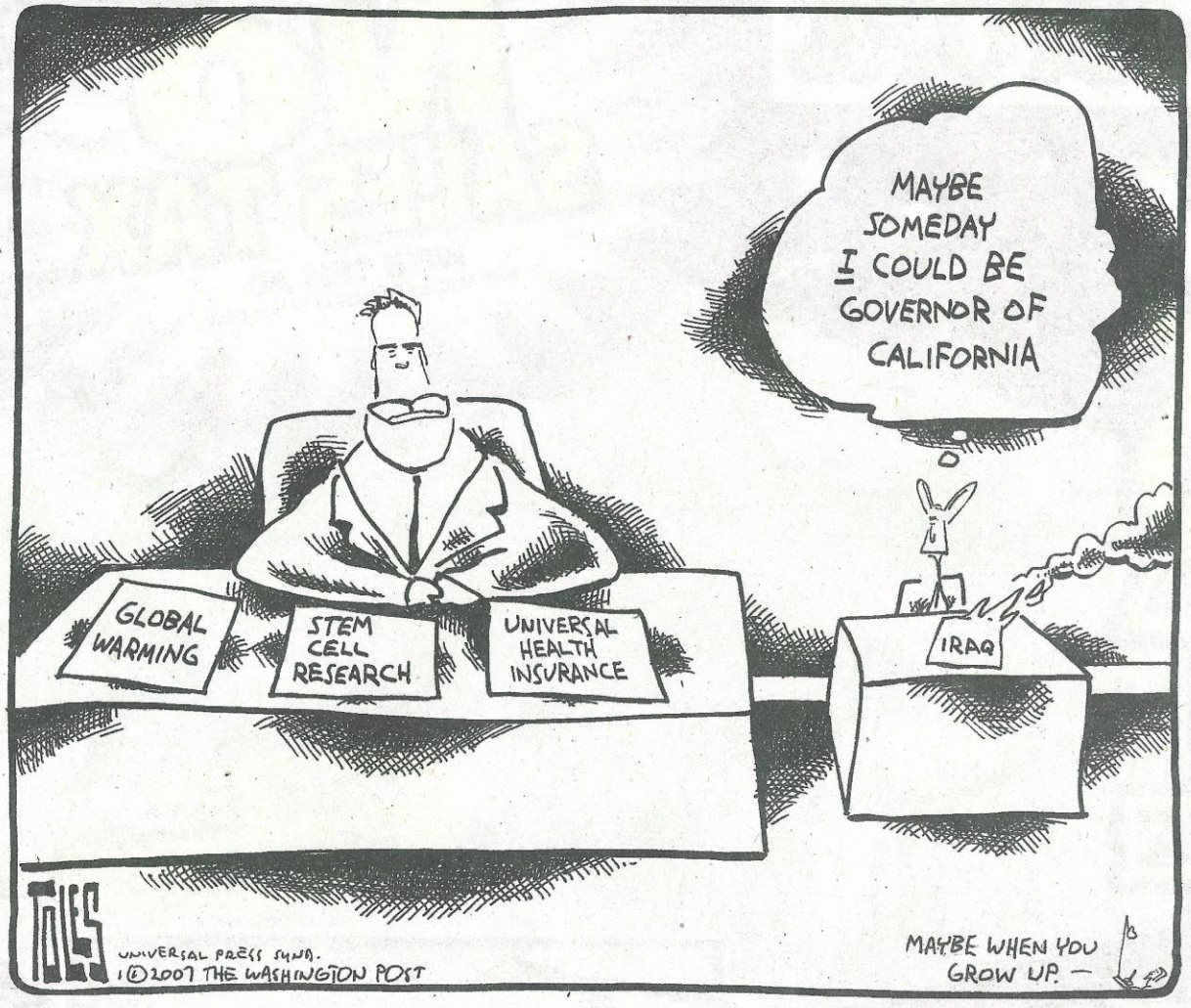
Focus: Roads vs. Healthcare

Britain

Japan

Mexico

Canada



TOM TOLES *Washington Post*

LEADERSHIP & THE ENVIRONMENT
Newsweek
Save the Planet– Or Else
Outside
Arnold
179
Solutions for a Hot Planet
THE GREEN ISSUE

Enough green glory, governor. Now get back to work

The cover of Newsweek's nice, but what about term limits, prison overcrowding and healthcare reform?

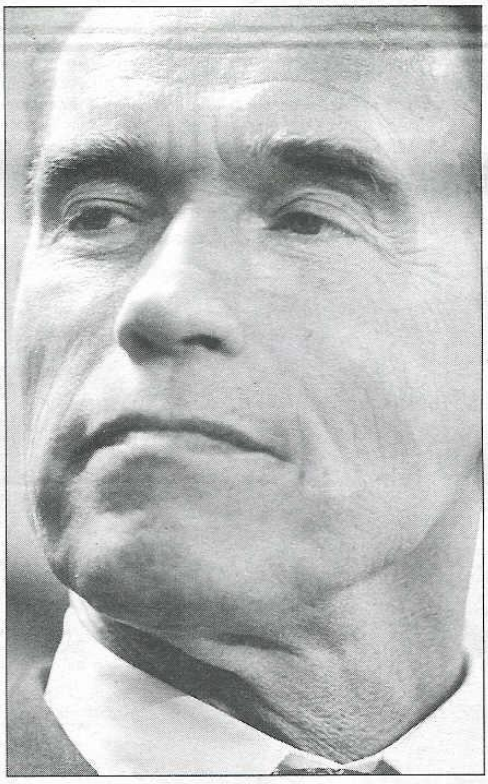
By Anthony York

Of late, Gov. Arnold Schwarzenegger has ridden the green wave to national — even global — prominence. He has received fawning media coverage — landing on the covers of Newsweek and Outside — as he travels the nation calling for tougher controls on carbon emissions to slow global warming.

In a New York speech, he scolded Detroit automakers for challenging California's stricter car-emissions standards, and in Washington, he preached that environmentalism is "hip." He will even appear in an episode of MTV's "Pimp My Ride" to inspect a remade car that runs on clean-burning fuel.

Schwarzenegger's green crusade has been a marketing coup, but some festering political issues at home may abruptly bring him down to political earth. Resolving these problems will do more to shape his legacy as governor than the landmark legislation he signed to slow global warming.

Chief among them is overcrowding in the state's prisons, in which 172,000 inmates occupy space for 100,000 and about 16,000 convicts are sleeping in hallways, gyms, recreation rooms or other areas not designed for housing. A federal judge has given the state until May 16 to come up



Stefan Zaklin *European Pressphoto Agency*

SPOTLIGHT: *Gov. Arnold Schwarzenegger's green crusade has been a marketing coup, but it won't help him come up with a legislative sequel.*

ber was under construction in San Quentin. Senate President Pro Tem Don Perata (D-Oakland) said the administration's secrecy on the project raised doubts about

islative form.

The governor's aides have been meeting with the legislative leadership, insurers and physician and hospital groups as many as four times a week. The Democratic leaders of the Assembly and Senate are expected to unveil their proposals this week. So far, Schwarzenegger seems content to allow others to introduce legislation.

Then there's the dreaded May budget revision, when state finance officials get their tally of actual tax receipts and compare them with the governor's January revenue and spending projections. Early indications are that the state's revenues will be at least $1 billion less than projected by the state Department of Finance in January. This probably will motivate Republicans, led by Assemblyman Mike Villines of Clovis, to urge the governor to take a harder line on state spending. In contrast to last year, all sides are girding for a long budget fight this summer. Villines has already sided with business groups in opposing the governor's healthcare plan, which they say will impose new taxes on California businesses.

Schwarzenegger, meantime, must deal with two political reform issues that could blow back on his prison and universal healthcare goals. Democratic leaders have put forth a term-limits proposal — one 12-year stint

Fear that things could be made worse

Harry and Louise from the anti-Clinton health plan campaign

Pro-Doing Something

Fear that things could be made worse

Unresolved During Summer

- **State budget stalemate diverts attention from health plan. Budget requires 2/3 vote.**
- **Legislative bills are only employer mandate (not individual)**
- **Governor's plan still not in bill form**
- **Federal legal issue: ERISA pre-emption regarding employer mandate**
- **State legal issue: Fee vs. tax and 2/3 vote requirement for tax**

Eventual "Resolution"

- **State budget signed with pretense of balance**
- **Governor and Núñez reach agreement**
- **Núñez puts the deal into bill form and Assembly passes**
- **Docs never agree to fee/tax but hospital do**
- **Funding gap to be filled with a tobacco tax to go on ballot to avoid 2/3 vote barrier**
- **SEIU national shuts off state-level opposition within union. Rest of organized labor switches to neutral stance.**

Eventual "Resolution"

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- **Fu tob av**
- **SE lev Re sw**

Great Momentum; No Happy Ending

- **Perata never really on board**
- **LAO suggests cost overruns are likely**
- **Budget situation predictably worsens**

Why the failure?

- **Budget for 2006-7 was already in deficit. High likelihood that fiscal problems would worsen so early progress needed on health plan.**
- **Complicated plan needed to have full details worked out early and to be put into bill form.**
- **Major campaign needed to raise public support and overcome fears.**
- **The two Democratic leaders in legislature needed to be brought on board early.**
- **The governor remained unfocused until too late.**

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